

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0428-01
Bill No.: HB 423
Subject: Taxation and Revenue - Sales and Use; Business and Commerce
Type: Original
Date: March 10, 2015

Bill Summary: This proposal would authorize a sales tax holiday for goods manufactured in Missouri.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
General Revenue	\$0	(Could exceed \$142,660	(Could exceed (\$31,510)
Total Estimated Net Effect on General Revenue	\$0	(Could exceed \$142,660	(Could exceed (\$31,510)

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
School District Trust	\$0	(Could exceed \$22,138)	(Could exceed \$22,138)
Conservation Commission	\$0	(Could exceed \$2,784)	(Could exceed \$2,784)
Parks, and Soil and Water	\$0	(Could exceed \$2,227)	(Could exceed \$2,227)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	(Could exceed \$27,149)	(Could exceed \$27,149)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Total Estimated Net Effect on FTE	0	0	0

- ☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2016	FY 2017	FY 2018
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** noted this proposal would create a sales tax holiday for products "Made in Missouri". This sales tax holiday would begin in tax year 2016.

BAP officials noted that a private organization is responsible for issuing the "Made in Missouri" logo. Since there is not currently information available on the amount of "Made in Missouri" products which are bought inside the state, BAP officials used the available information on "Made in USA" products to estimate the amount of sales that would occur in Missouri.

ASSUMPTION (continued)

BAP officials also cited a study prepared by the San Francisco Federal Reserve provided estimates the proportion of personal consumption comprised by various product types, including what portion is designated as "Made in USA". BAP officials estimated that 11.7% of reported annual sales are "Made in USA", and that 1.7% of those products would qualify for the "Made in Missouri" holiday. Further, since the holiday lasts for three days, B&P assumes $(3 \text{ days} / 365 \text{ days}) = 0.8\%$ of annual qualifying sales would be exempt, or 0.0016% of annual sales. In FY 2014, \$1,969 million of sales tax was collected. This would reduce General Revenue Fund receipts by \$31,510.

If food were included, B&P estimates that 18.7% of annual sales are "Made in USA", and that 1.7% of those products would qualify for the "Made in Missouri" holiday. Further, since the holiday lasts for three days, B&P assumes 0.8% of annual qualifying sales would be exempt, or 0.0026% of annual sales.

Oversight does not have any independent information regarding "Made in Missouri" product sales and will use the BAP calculation of estimated revenue reduction for the General Revenue Fund, and will use the BAP estimate of a 0.0026% revenue reduction to calculate the estimated impact on other state funds which receive sales tax revenues as shown below.

Fund	2014 Revenues *	Calculated Reduction
School District Trust	\$851,450,221	\$22,138
Conservation Commission	\$107,076,440	\$2,784
Parks, and Soil and Water	\$85,660,149	\$2,227
* Reported by the Department of Revenue		

Oversight assumes the sales tax holiday could potentially influence the timing of larger purchases, resulting in revenue reductions larger than the BAP calculations. Oversight notes the revenue reduction could exceed the amounts calculated for the General Revenue Fund and for those other state funds which receive sales tax revenues, and will indicate a revenue reduction which could exceed the amounts calculated.

ASSUMPTION (continued)

Oversight will not indicate a fiscal impact to road and transportation funds since motor vehicle sales are not eligible for the sales tax exemption, and will not indicate a revenue reduction for local governments since local government adoption of the sales tax holiday would be optional.

Officials from the **Department of Revenue (DOR)** assume this proposal would, beginning January 1, 2016, provide a state sales exemption for all retail sales of products manufactured in their entirety in Missouri. The proposed holiday would extend through a four-day period beginning on the Friday before Labor Day and ending at midnight on Labor Day. Eligible products would be manufactured in Missouri and carry the Missouri Association of Manufacturer's logo. The proposal would not include the sale of motor vehicles in the exemption.

DOR officials stated the Department is unable to determine the amount of "Made in Missouri" product sales tax that is included in the total amount of sales tax reported. Based on \$3.332 billion in state sales and use tax collections for fiscal year 2014, the Department estimated daily sales and use tax collections of \$9.1 million, and providing an exemption for "Made in Missouri" products for a four-day period could result in an overall reduction Total State Revenue of \$36.4 million. DOR officials assume the Office of Administration - Division of Budget and Planning may be able to provide more precise numbers.

Administrative Impact

DOR officials assume Collections and Tax Assistance (CATA) would require one additional Revenue Processing Technician I for additional file maintenance, and that additional employee would require CARES equipment and license.

DOR officials noted Sales Tax would require programming to establish an item tax reported on a separate sales tax holiday line on taxpayer's returns for political subdivisions that do not participate in the holiday.

ASSUMPTION (continued)

DOR officials noted the proposed Sales Tax Holiday would impact two filing periods (September Monthly Returns and July-September Quarterly returns). Because businesses must differentiate sales tax collected in political subdivisions that do not participate, it potentially could eliminate a substantial volume of the September - One and Two Location Voucher returns and the Quarterly July-September - One and Two Location Voucher Returns that can be processed without human intervention. This would result in additional long forms and add to the complexity of filing for the impacted businesses.

DOR officials assume the Department would need to notify approximately 1,500 cities, counties, and districts how to participate in the holiday; resulting in mailing and printing costs.

Letters	$\$0.025 \times 1500 =$	\$ 37
Envelops	$\$0.040 \times 1500 =$	60
Postage	$\$0.490 \times 1500 =$	735
Total	$\$0.555 \times 1500 =$	\$ 832

In addition, the Department would send approximately 20,000 businesses an annual holiday notification informing them how to collect and report holiday related sales tax for locals only and how to report the exemption on their return.

Letters	$\$0.025 \times 20,000 =$	\$ 500
Envelops	$\$0.040 \times 20,000 =$	800
Postage	$\$0.490 \times 20,000 =$	\$ 9,800
Total	$\$0.555 \times 20,000 =$	\$11,100

Sales Tax would require one additional Revenue Processing Technician I (Range 10, Step L) to process refund claims, and the Integrated Revenue System would require a new item code and business notification templates.

Summary

In total, the DOR estimate of cost to implement this proposal including two additional employees and the related benefits, equipment, mailings, and other expense totaled \$93,978 for FY 2016, \$96,317 for FY 2017, and \$97,497 for FY 2018.

ASSUMPTION (continued)

Oversight assumes the notifications to cities and to retail licensees would be included in regular DOR communications; therefore, the Department of Revenue would not incur any significant additional cost for those notifications.

Oversight notes this proposal would provide two brief sales tax holidays; Labor Day weekend in 2016 (FY 2017) and 2017 (FY 2018). Although the holidays could result in consumers delaying purchases for a limited time before the holiday, Oversight will assume the holidays would only impact taxable sales in FY 2017 and FY 2018. Accordingly, Oversight assumes any additional cost to DOR from this proposal would be minimal and could be absorbed with existing resources. If unanticipated additional costs are incurred, or if multiple proposals are implemented which increase the DOR workload, resources could be requested through the budget process.

IT impact

DOR officials included an estimate of the IT cost to implement this proposal of \$111,150 for programming to make changes to the Integrated Revenue System.

Oversight will include the DOR estimate of IT cost in this fiscal note.

Officials from the **Department of Conservation (MDC)** assumed a similar proposal would have an unknown negative fiscal impact to their organization, but greater than \$100,000. MDC officials deferred to the Department of Revenue for an estimate of the anticipated fiscal impact for this proposal.

Officials from the **Department of Natural Resources (DNR)** deferred to the Department of Revenue and Office of Administration - Division of Budget and Planning for a more detailed account of the fiscal impact of this proposal.

Officials from the **Office of the Secretary of State**, the **Joint Committee on Administrative Rules** and the **Platte County Board of Elections** assume this proposal would have no impact on their organizations.

ASSUMPTION (continued)

Not responding

Officials from the following cities: Ashland, Belton, Bernie, Bonne Terre, Boonville, California, Cape Girardeau, Clayton, Columbia, Dardenne Prairie, Excelsior Springs, Florissant, Frontenac, Fulton, Gladstone, Grandview, Harrisonville, Independence, Jefferson City, Joplin, Kansas City, Kearney, Knob Noster, Ladue, Lake Ozark, Lee Summit, Liberty, Louisiana, Maryland Heights, Maryville, Mexico, Monett, Neosho, O'Fallon, Pacific, Peculiar, Pineville, Popular Bluff, Raytown, Republic, Richmond, Rolla, Sedalia, Springfield, St. Charles, St. Louis, St. Robert, Sugar Creek, Sullivan, Warrensburg, Warrenton, Webb City, Weldon Spring and West Plains did not respond to our request for information.

Officials from the following counties: Andrew, Atchison, Audrain, Barry, Bollinger, Boone, Buchanan, Callaway, Camden, Cape Girardeau, Carroll, Cass, Clay, Cole, Cooper, DeKalb, Dent, Franklin, Greene, Holt, Jackson, Jefferson, Johnson, Knox, Laclede, Lawrence, Lincoln, Marion, McDonald, Miller, Moniteau, Monroe, Montgomery, New Madrid, Nodaway, Ozark, Perry, Pettis, Phelps, Platte, Pulaski, St. Louis, Scott, Shelby, St. Charles, St. Francois, Taney, Warren, Wayne and Worth did not respond to our request for information.

<u>FISCAL IMPACT - State Government</u>	FY 2016 (10 Mo.)	FY 2017	FY 2018
GENERAL REVENUE FUND			
<u>Cost - DOR</u>			
IT cost	\$0	(\$111,150)	\$0
<u>Revenue reduction</u>			
Sales tax holiday Section 144.1050	<u>\$0</u>	(Could exceed <u>\$31,510</u>)	(Could exceed <u>\$31,510</u>)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>\$0</u>	(Could exceed <u>\$142,660</u>)	(Could exceed <u>\$31,510</u>)

FISCAL IMPACT - State Government
 (Continued)

FY 2016
 (10 Mo.)

FY 2017

FY 2018

SCHOOL DISTRICT TRUST FUND

Revenue reduction - DOR

Sales tax holiday
 Section 144.1050

	(Could exceed	(Could exceed
<u>\$0</u>	<u>\$22,138)</u>	<u>\$22,138)</u>

**ESTIMATED NET EFFECT ON
 SCHOOL DISTRICT TRUST FUND**

<u>\$0</u>	(Could exceed	(Could exceed
	<u>\$22,138)</u>	<u>\$22,138)</u>

**CONSERVATION COMMISSION
 FUND**

Revenue reduction

Sales tax holiday
 Section 144.1050

	(Could exceed	(Could exceed
<u>\$0</u>	<u>\$2,784)</u>	<u>\$2,784)</u>

**ESTIMATED NET EFFECT ON
 CONSERVATION COMMISSION
 FUND**

<u>\$0</u>	(Could exceed	(Could exceed
	<u>\$2,784)</u>	<u>\$2,84)</u>

**PARKS, AND SOIL AND WATER
 FUNDS**

Revenue reduction

Sales tax holiday
 Section 144.1050

	(Could exceed	(Could exceed
<u>\$0</u>	<u>\$2,227)</u>	<u>\$2,227)</u>

**ESTIMATED NET EFFECT ON
 PARKS, AND SOIL AND WATER
 FUNDS**

<u>\$0</u>	(Could exceed	(Could exceed
	<u>\$2,227)</u>	<u>\$2,227)</u>

FISCAL IMPACT - Local Government

FY 2016
(10 Mo.)

FY 2017

FY 2018

\$0

\$0

\$0

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

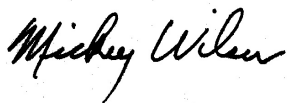
FISCAL DESCRIPTION

This proposal would authorize a sales tax exemption for products that are made in Missouri during the sales tax holiday over Labor Day Weekend with specified exceptions.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State
Joint Committee on Administrative Rules
Office of Administration
 Division of Budget and Planning
Department of Conservation
Department of Natural Resources
Department of Revenue
St. Louis County
Platte County Board of Elections



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